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Control of Cash Holdings

1. When the Communists occupied the mainland, they attributed the rise in commodity prices and the slump in value of their currency to the fact that the total volume of currency issued fell behind requirements. The phenomenal upheaval in general commodity prices in June and October 1949 was mainly caused by the appropriation of immense funds by the Communist army and commercial organizations. Accordingly in April 1950, the Communists enforced the control of cash holdings by ordering that all cash holdings of their official organizations, army, public enterprises, and co-operative societies in excess of a specified sum were to be deposited with the People's Bank, and that their mutual transactions must be cleared through the People's Bank to which these organizations must periodically report their receipts and payments. As a result the majority of national currency deposit is now concentrated in the hands of the People's Bank, which holds a deposit several times the volume of currency in market circulation.
2. Taking Shanghai as an example, the following table gives a comparison between the volume of negotiable bills cleared through the People's Bank with the total volume of deposit in public and private banks there during the period April to December 1950:

	<u>Volume of Bills Exchanged</u> (in \$100,000,000)	<u>Volume of Deposit</u> (in \$100,000,000)
April	7,748.64	7,775.34
May	7,736.02	8,842.75
June	7,564.62	8,283.64
July	7,692.82	11,792.43
August	7,683.07	11,745.31
September	7,694.02	11,897.26
October	7,724.13	12,753.62
November	7,723.64	13,945.26
December	7,735.69	15,213.56

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3. In October 1950, in order to cope with the effect of the Korean war on continental markets, the Communists temporarily froze all deposits of national organizations and official enterprises. These deposits were unfrozen in the middle of December of the same year.

The Nature and Object of Communist Currency Control

4. Communist currency control during 1950 may be summarized as the designation of the People's Bank as the center of cash holdings. Work on other programs has hardly begun, i.e. the central clearing system cannot be said to have been universally adopted since commercial credit extension still obtains between different units of organizations, and short-term credit has not been entirely centralized in the People's Bank. No division has yet been made between long-term construction investments as against short-term emergency loans. Furthermore, as to the plans of receipts and payments, a small number of units have not yet compiled these, while some of those which have been compiled lack details. To learn from the experience of the USSR, it was believed necessary to make the People's Bank not only the center of cash holdings but also the center of all clearing and all credit.
5. The Communist Executive Yuan* promulgated and enforced the Procedure for Enforcement of Currency Control and the Procedure for Compilation of Records of Currency Receipts and Currency Payments on 25 December 1950. These may be summarized into four main points:
 - a. The Strengthening of Control of Cash Holdings. Up to December 1950, 75 percent of Communist Government organizations, army, enterprises, institutions, and co-operatives opened accounts with the People's Bank. The remaining 25 percent were to do the same in 1951. A specified limit of cash holdings was to be enforced, and supervision was to be exercised over all units to compile records of currency receipts and payments according to conditions laid down and to carry out plans according to fixed procedure.
 - b. The Enforcement of Clearing Through Account Transfer without Cash Payment. According to specified requirements, all operating units must open clearing accounts with the bank while all units in charge of cash receipts and payments must open current accounts. Transactions between clearing accounts are cleared through the use of a certificate of payment of balance between total receipts and payments, while those between clearing and current accounts and between current accounts themselves are settled by account transfer checks. Both the certificates and the checks in question are not allowed to circulate in the market, nor can they be cashed. Cash funds may only be appropriated for payment of wages, traveling expenses and those transactions with private enterprises, urban populations and farmers.
 - c. Centralization of Short-Term Credit. While the floating funds of enterprises and co-operatives should in principle be partly accumulated by themselves, the People's Bank extends loans for meeting obligations of a current nature, on presentation to the Bank of their plans for utilization of the loans as well as an undertaking to repay them on maturity, together with the requisite mortgages to secure eventual repayment. A distinction is made regarding expenditures of enterprises for construction and equipment purposes which belong to the sphere of investment for fundamental national construction and hence are provided for through special appropriation by the Government under the revenue budget.

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d. Supervision of Investment for Fundamental National Construction. The sphere of investment for this purpose is limited to construction and equipment. All necessary funds are appropriated through the national revenue budget for the current fiscal year and are handled by a special bank engaged in that special construction enterprise as appointed by the People's Bank to unify the control of expenditure of these funds and to supervise their proper use. The units of funds appropriated should be so graduated as to progress with the different stages of the construction works. After the completion of the construction works, they should be checked over by the special banks appointed to supervise the funds and then through the setting up of depreciation of national enterprises and the management of sinking funds, the bank accumulates further national capital for continual reproduction and expansion.

6. The main aims of the Chinese Communists are:

- a. To convert the People's Bank into the center of custody of all cash reserves by economic management of their cash control scheme.
- b. To convert the People's Bank into the clearing house of different productive units whose obligations towards each other are settled by account transfer checks and certificates of payment of balance between total receipts and payments which cannot be realized into ready money in the market and are good only for account transfer purposes.
- c. To achieve, by means of abolition of all commercial credits, the building up of the People's Bank into the center of loans and credits.

Plans for Revenue Receipts and Expenditure Payments and Plans for Loans on Credit to Productive Enterprises

7. Important in the Chinese currency control scheme are the plans for revenue receipts and expenditure payments, compilation of which is based on the following material:
- a. The business management scheme (including the schemes for production, sale and purchase of goods and for financing the business) or the entire budget estimate (including provision for ordinary, special and temporary expenses);
 - b. the actual distribution of funds by the responsible authorities engaged in the business, and
 - c. the actual result of revenue and expenditure for the business, and the seasonal market fluctuations during the current period.
8. In association with the plans mentioned above, the authorities utilized the credit control scheme to determine the volume of currency issue. This credit control scheme is the basis of distribution by the People's Bank of capital investments among various productive economic enterprises and is executed by the Communists on the basis of relative urgency of the different demands for funds. It gives special consideration to requirements of the national economy. The conditions for such credit are the borrowing units of enterprises must be those subject to auditing control with self-provided floating capital and with an independent accounting system. Other requirements for the granting of credit are:

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- a. The abolition of previous commercial credit practices, such as the payment of deposit and the opening of promissory notes or bills of exchange;
- b. the credit granted will be limited to such amount as would suffice for the easing of tightness of the floating funds, and
- c. the use of the loan is limited to the original purpose.

Currency Control in Manchuria

9. On 10 January 1950 the Communist Northeast People's Government abolished the 1950 accounting system whereby the Central Accounting Bureau was authorized to appropriate all cash, all supplies of materials, and necessary capital to the main financial and economic units. Instead the different productive units were required to enforce independent auditing systems, while the Northeast Bank was held responsible for the control of cash, the financing of short-term loans and the clearing of their business transactions through the Northeast Bank.
10. During the last quarter of 1950, 42 units established new business relations with the Northeast bank. These were confined mainly to enterprises for the control of productive factories and mines, and not the productive mines and factories themselves, few of which had direct relations with that regional central bank. During this quarter the control was extended to the producing mines and factories which, according to the estimate of six provincial and four municipal branches, numbered 201 at the end of October.
11. According to the statistics of 91 bank branches up to the end of October, 5,213 units were liable to control of their cash receipts and disbursements by the bank, with 4,648 units already applied to the bank to approve the minimum cash holdings and already subjected to the bank's control of their accounts.
12. Progress has been made in the carrying out of the projected scheme of revenue receipts and financial expenditures in accordance with that arranged with the bank, but still only with about half success, the difference between the actual receipts and payments by the enterprises and the projected figures coming up to over 50 percent.
13. The following drawbacks in the enforcement of their program were admitted by the Communists:
 - a. Incomplete figures submitted: e.g. some figures compiled include only expenditures without receipts, others with cash incomes and expenditures but without receipts and payments by account transfer.
 - b. Lack of punctuality in submission of figures: Generally speaking, these figures were not submitted within the stipulated time limit, with the majority not received until the middle of the next month. A few were as late as the last ten days of the month, being even one or two days from the end of the next month. This delay had adverse effects on the extension of credits to these mines and factories.
 - c. Certain divergence in figures planned and actual requirements of production, marketing and mining; i.e. the figures apportioned did not take into full account the realities of the situation.

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- d. Negligence in the preliminary audit by the local branches. This is fatal, for the head office of the bank cannot be expected to know the intimate conditions of the district and so the inaccurate preliminary audit was accepted with unsatisfactory results.
- e. The bank officials, not being conversant with the details of cost accounting, granted the requests of the different productive units for loans without being able to judge the actual conditions.
- f. The delay in remittance affecting the accuracy of the statistics of volume of currency returned to the treasury.
- g. Because of the division into disparate categories between the head bank and branch banks, the branch banks had to copy all the small details, necessitating, in the case of Anshan, two or three bookkeepers doing nothing but copying down the figures to be reported.
- h. The fault of the plan itself in that it was sometimes a plan blindly submitted and, in other cases, the funds were allowed to accumulate and lie idle.

Currency Controls of 6 March 1951

14. On 6 March 1951 the Chinese Communist Government promulgated a regulation which prohibits the movement of national currency into or out of China.

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